

COUNTY OF BERNALILLO NEW MEXICO
Management's Discussion and Analysis
June 30, 2004

As management of the County of Bernalillo (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

Financial Highlights

- The government-wide assets of the County exceed its liabilities as of June 30, 2004 by \$350,262,012 (net assets) for the primary government and by \$624,383 for the Redevelopment Corporation (Component Unit). Of this amount, \$265,676,107 is invested in capital assets, net of related debt for the primary government and \$264,939 for the component unit. Of the remaining balance, \$47,164,322 is restricted for specific purposes and \$37,421,583 is unrestricted for the primary government and \$359,444 for the component unit and may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets for the primary government increased by \$20,170,912 or by 6.1% during the fiscal year from \$330,091,100 (restated) in FY03 to \$350,262,012 in FY04.
- As of June 30, 2004, the County's governmental activities and the business-type activities have net assets of \$346,202,703 and \$4,059,309, respectively.
- The County's General Fund increased \$4,503,774 from \$43,429,177 (restated) in FY03 to \$47,932,951 in FY04. Of this amount, \$43,609,351 or 90.9% of the general fund is reserved for subsequent year's expenditures.
- The County was able to maintain adequate reserves as required by the State of New Mexico Department of Finance and Administration, Local Government Division – 3/12 of the General Fund Budget for FY05.
- During the year, the County sold \$10,210,000 of General Obligation Bonds. \$4,700,000 for roads, \$1,315,000 for storm drains, \$1,000,000 for library resources, \$525,000 for parks and recreation, \$1,500,000 for public safety, and \$1,170,000 for ADA facilities improvements.
- The County has \$301,437,321 in available bonding capacity or 78.2% of allowable bonding capacity per the New Mexico State Constitution (see page 137).
- During the year the County sold \$12,000,000 of Gross Receipts Tax Revenue Bonds for the purposes of acquiring land, constructing, purchasing, furnishing, equipping, rehabilitating or making additions to one or more public buildings.

- The County property valuations increased 3.76% from \$9.28 billion in FY03 to \$9.63 billion in FY04.
- The County maintained its Aa1 rating with Moody's Investors Service, Inc. and AA+ for Standard & Poor's Rating Service.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. For example, property taxes are recognized as revenues in the year for which they are levied.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguished functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (Business-type activities). The governmental activities of the County include general government, public works, public safety, health and welfare, and culture and recreation. The Business-type activities of the County include Solid Waste, Bernalillo Housing Authority, Seybold Village Handicapped Project, and the Regional Juvenile Detention Center.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate Housing Redevelopment Corporation for which the County is financially accountable. Financial information for the Bernalillo County Housing Redevelopment Corporation is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 23-24 of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other

state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. For this purpose, the County considers revenues to be available if they are collected within 60 days of the current fiscal period. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the General fund, the County maintains fifty-two other individual governmental funds of which seventeen are classified as Special Revenue funds, thirteen are classified as Debt Service funds, and twenty-two are classified as Capital Projects funds. Information for the General fund, the grant fund, and the 1999 Revenue Bond Capital Projects fund all of which are considered to be major funds, is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General fund. A budgetary comparison statement for the General fund is presented on page 29. In addition, the County adopts an annual budget for other non-major funds. A budgetary comparison statement is presented in the aggregate and individually for all those funds.

The basic governmental fund financial statements can be found on pages 25-28 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *Business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Solid Waste, Housing Authority, Seybold Village Handicapped Project, and the Regional Juvenile Detention Center. An *Internal service fund* is used to account for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund is the Risk Management fund, which is used to account for its risk management activities. Because the services provided by the Risk Management fund predominantly benefit governmental rather than business-type functions, this fund is included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 30-32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements

because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on page 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 35-65 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 66-108 of this report.

Government-wide Financial Analysis

This is the third year that the County has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. This is the second year that the County has included comparative analysis of government-wide data for the MD&A.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County's primary government, assets exceed liabilities by \$350,262,012 at the close of the most recent fiscal year. The County's component unit – Redevelopment Corporation's net assets exceeded liabilities by \$624,383. By far the largest portion of the County's net assets (75.8% percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any debt, used to acquire those assets, that is still outstanding. In the prior year, the County's investment in capital assets was 79.0% of net assets. The County uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

County of Bernalillo Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets:						
Current and other assets	\$220,550,839	\$175,990,309	\$ 1,975,886	\$2,233,851	\$222,526,725	\$178,224,160
Capital assets	478,864,013	487,489,712	2,894,514	2,552,611	481,758,527	490,042,323
Total assets	699,414,852	663,480,021	4,870,400	4,786,462	704,285,252	668,266,483
Liabilities:						
Long-term liabilities	276,140,000	264,315,422	-	9,556	276,140,000	264,324,978
Other liabilities	77,072,149	74,130,001	811,091	845,328	77,883,240	74,975,329
Total liabilities	353,212,149	338,445,423	811,091	854,884	354,023,240	339,300,307
Net Assets:						
Invested in capital assets, net of related debt	262,781,593	258,269,827	2,894,514	2,521,602	265,676,107	260,791,429
Restricted	47,164,322	23,926,773	-	-	47,164,322	23,926,773
Unrestricted	36,256,788	42,837,998	1,164,795	1,409,976	37,421,583	44,247,974
Total net assets	\$346,202,703	\$325,034,598	\$4,059,309	\$3,931,578	\$350,262,012	\$328,966,176

Restricted net assets in the amount of \$47,164,322 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$37,421,583 may be used to meet the government's ongoing obligations to citizens and creditors.

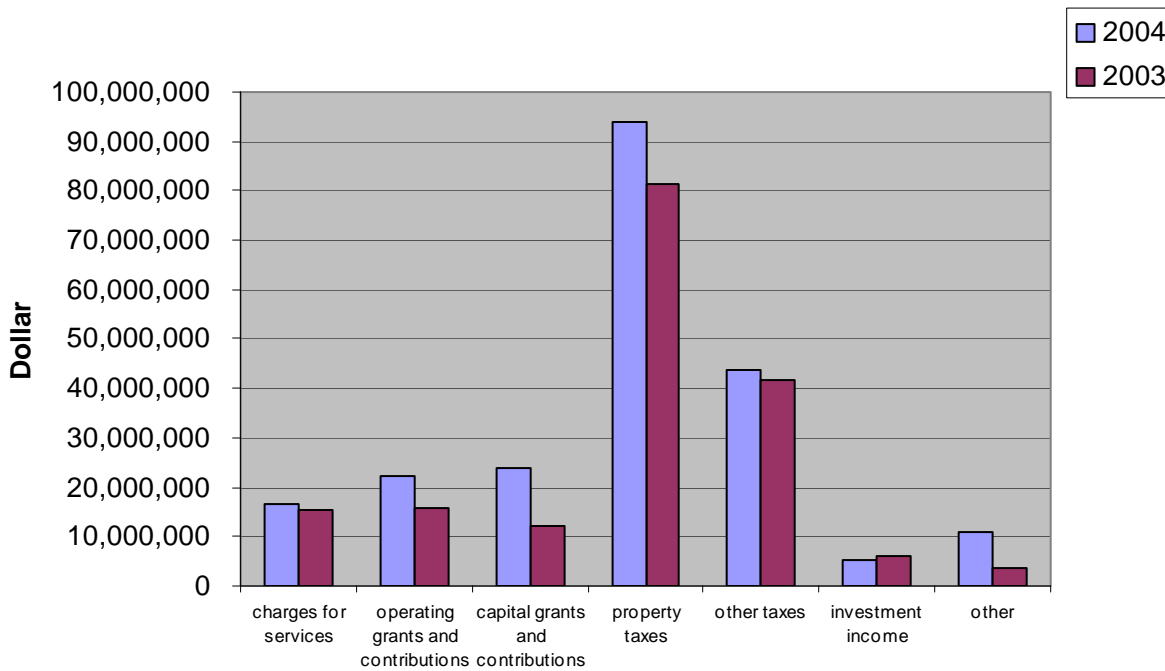
At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities during the year increased the County's net assets by \$19,871,845 in FY04 as compared to \$9,719,542 in FY03.

County of Bernalillo's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:						
Program revenues:						
Charges for services	\$16,687,882	\$ 15,426,450	\$ 5,945,501	\$ 5,368,316	\$22,633,383	\$ 20,794,766
Operating grants and contributions	21,715,925	15,613,995	148,490	292,097	21,864,415	15,906,092
Capital grants and contributions	23,844,677	12,263,064	-	-	23,844,677	12,263,064
General revenues:						
Property taxes	94,043,897	81,442,677	-	-	94,043,897	81,442,677
Other taxes	43,833,169	41,602,958	-	-	43,833,169	41,602,958
Investment income	5,184,585	6,067,056	5,175	6,243	5,189,760	6,073,299
Grants and contributions not restricted to specific programs	-	-	708,896	632,117	708,896	632,117
Other	11,332,291	3,488,475	119,379	100,748	11,451,670	3,589,223
Total revenues	<u>216,642,426</u>	<u>175,904,675</u>	<u>6,927,441</u>	<u>6,399,521</u>	<u>223,569,867</u>	<u>182,304,196</u>
Expenses:						
General government	37,501,192	35,401,110	-	-	37,501,192	35,401,110
Public works	32,294,831	17,430,834	-	-	32,294,831	17,430,834
Public safety	82,328,864	70,268,870	-	-	82,328,864	70,268,870
Health and welfare	18,785,416	18,236,535	-	-	18,785,416	18,236,535
Culture and recreation	11,409,199	10,970,249	-	-	11,409,199	10,970,249
Interest on long-term debt	14,651,079	13,877,535	-	-	14,651,079	13,877,535
Solid Waste	-	-	3,353,335	3,256,760	3,353,335	3,256,760
Housing Authority	-	-	1,672,735	1,632,148	1,672,735	1,632,148
Seybold Village	-	-	126,954	135,129	126,954	135,129
Juvenile Detention Center	-	-	1,275,350	1,190,085	1,275,350	1,190,085
Total expenses	<u>196,970,581</u>	<u>166,185,133</u>	<u>6,428,374</u>	<u>6,214,122</u>	<u>203,398,955</u>	<u>172,399,255</u>
Increase in net assets before transfers	19,671,845	9,719,542	499,067	185,399	20,170,912	9,904,941
Transfers in (out)	200,000	-	(200,000)	-	-	-
Increase in net assets	<u>19,871,845</u>	<u>9,719,542</u>	<u>299,067</u>	<u>185,399</u>	<u>20,170,912</u>	<u>9,904,941</u>
Net assets –beginning	325,034,598	275,231,891	3,931,578	3,746,179	328,966,176	278,978,070
Restatement	1,296,260	40,083,165	(171,336)	-	1,124,924	40,083,165
Net assets – beginning as restated	<u>326,330,858</u>	<u>315,315,056</u>	<u>3,760,242</u>	<u>3,746,179</u>	<u>330,091,100</u>	<u>319,061,235</u>
Net assets – ending	<u>\$ 346,202,703</u>	<u>\$ 325,034,598</u>	<u>\$ 4,059,309</u>	<u>\$ 3,931,578</u>	<u>\$ 350,262,012</u>	<u>\$ 328,966,176</u>

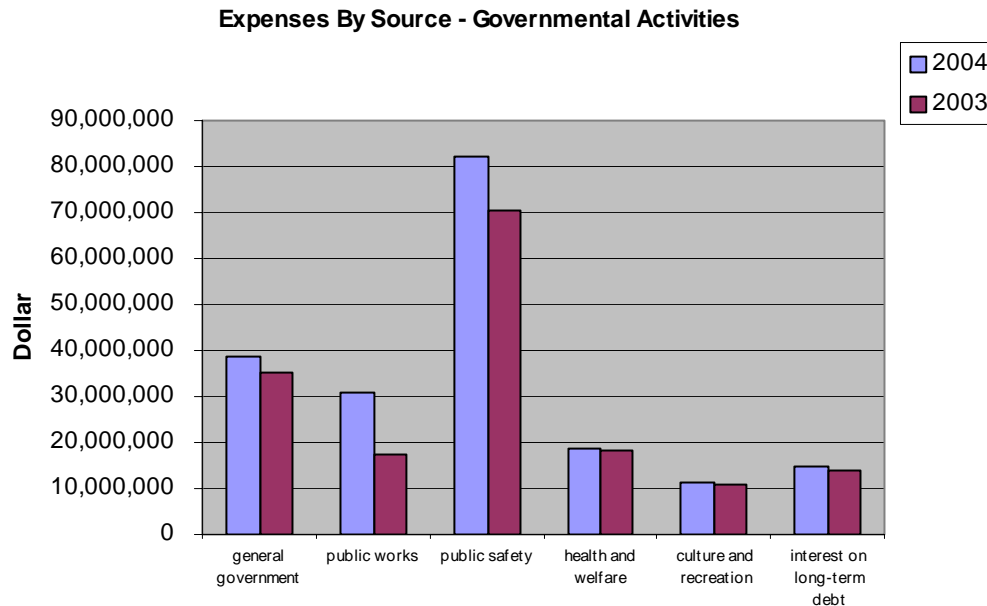
Revenues By Source - Governmental Activities



Governmental Activities revenues increased by \$40.7 million during the year from \$175.9 million in FY03 to \$216.6 in FY04, an increase of 23.1%. Key elements in the growth of governmental activities revenues are as follows:

- Property taxes revenue increased \$12.6 million from \$81.4 million to \$94.0 million in FY04. The increase in property tax revenue accounts for 30% of the total increase of revenues during the year and is attributed to three different factors. Taxable property valuation within the County increased 3.7% to \$9.633 billion or by \$349 million from the previous year. In FY04, the County's operational residential mill levy rate increased from 5.918 to 7.007 and the operational non-residential mil levy rate increased from 10.520 to 11.600. The debt service mill levy rate decreased slightly from 0.95 to 0.83. The changes in the mill levy rates contributed to the significant growth in property tax revenues in FY04. Another contributing factor is the increase in the current property tax collection rate from 95.12% to 95.40% in FY04.
- Program revenues Capital Grants and Contributions increased by \$11.6 million from \$12.2 million to \$23.8 million in FY04, a 95% increase. A significant portion of the increase (\$8.5 million) is attributed to an increase in intergovernmental revenue related to the work on the Valley Utilities Project. Another portion of the increase is attributed to a \$2.2 million grant for the repayment of a loan on the Paseo Del Norte road project.
- Operating Grants and Contributions increased by \$6.1 million from \$15.6 million to \$21.7 million in FY04, a 39% increase. In FY04, the County began management of local DWI distribution grant monies that increased public safety grant revenue by approximately \$5.5 million.

- Other revenue increased by \$7.9 from \$3.4 million to \$11.3 million in FY04, an increase of 232%. A majority of this increase is attributed to \$4.2 in revenues received from the City of Albuquerque for reimbursable food, canteen, and utilities costs incurred by the County on behalf of the jointly funded Metropolitan Detention Center. In prior years, these shared costs were incurred by the City and allocated back to the County. The other significant factor in the increase in miscellaneous revenue was a \$1.65 million property tax abatement settlement from Philips Semiconductors. Other amounts include revenue received from legal settlements in the amount of \$910,644 and other miscellaneous reimbursements.



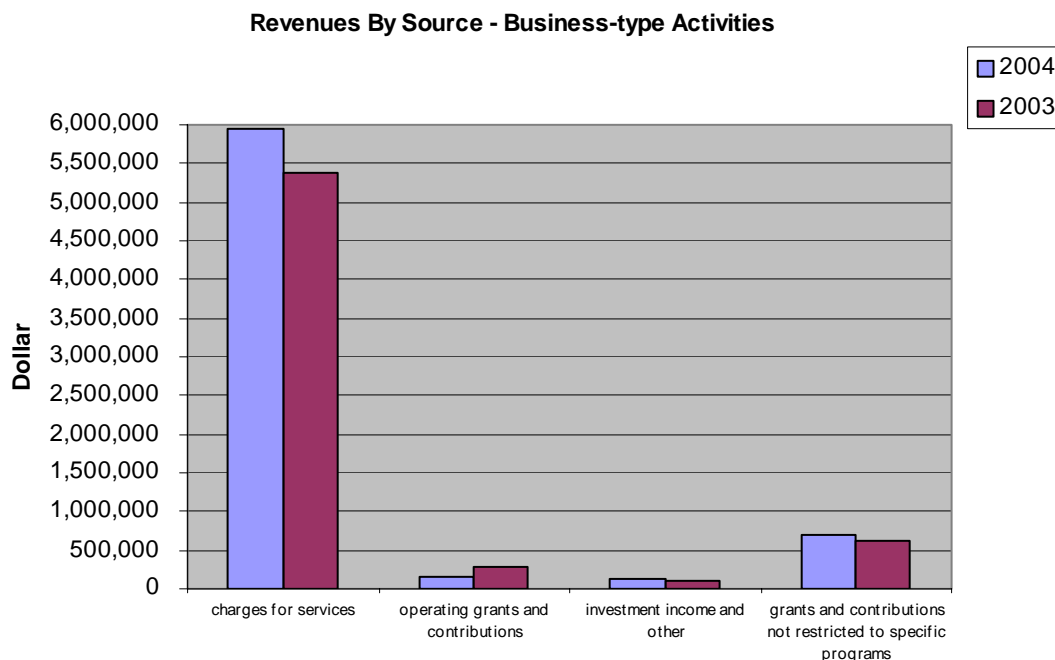
Governmental activities expenses increased by \$30.7 from \$166.2 million to \$196.9 million, an increase of 18%. Key elements in the changes of governmental activities expenses are as follows:

- General government expenses increased from \$35.4 million to \$37.5 million, a 5.9% increase. In FY02, the general government expenses were decreased for the reversal of a contingent liability of \$4.2 million for a pending lawsuit that was settled for \$1.9. The net effect of this prior year transaction reduced general government expenses from \$37.7 million to \$35.4 million in FY03. Had prior year expenses not been reduced for this amount, the net change in expense between FY03 and FY04 would have only been 2.8%. The small increase in general government expenses is attributed in part to the reclassification of \$2.8 million that decreased Facility Management expenses in FY04. Custodian services and maintenance and repairs cost centers that were included within general government category in FY03 were transferred to the Public Works Department in FY04.
- Public works expenses increased from \$17.4 million to \$32.2 million, an increase of 79.8%. A significant part of the increase is attributed to the loss on disposition of capital assets in the amount of \$8.9 million. In FY04, the County turned over ownership of various roads and right-of-ways infrastructure to other local governments. The recorded value of the road and right-of-way infrastructure was \$1.2 million and \$7.7 million, respectively. Another significant increase is due

to the increased work activity on the Valley Utilities Project (\$8.5 million). The increase in public works expenses is also attributed in part to the reorganization of several departments within the County that increased expenditures \$2.8 million.

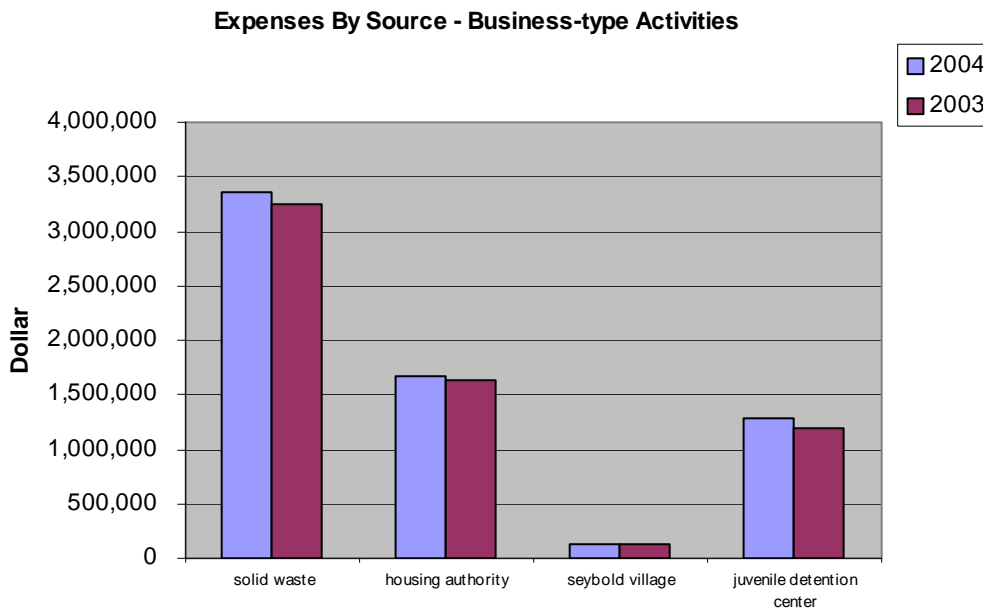
- Public safety expenses increased from \$70.2 million to \$82.3 million, a 17.0% increase. In FY04, the County took over the grant management of local DWI distributions that increased public safety grant expenses by \$5.5 million. In FY04, the County on behalf of the jointly funded Metropolitan Detention Center incurred approximately \$4.2 in expenses for reimbursable food, canteen, and utility costs. In prior years, these shared costs were incurred by the City of Albuquerque (City) and allocated back to the County. In FY04, the County paid for these costs and was reimbursed by the City. Also, in FY04, the MDC became fully operational and the County recognized a full year of depreciation on the \$90.4 million MDC facility. Depreciation expense increased from \$774,062 in FY03 to \$3.6 million in FY04. Also in FY04, the Law Enforcement Block Grant reimbursable expenses increased from \$444,039 to \$1,055,500.

Business-type activities. Business-type activities net assets increased by \$299,067 during the current fiscal year. This increase represents the degree to which ongoing program and non-operating revenues have outstripped ongoing expenses in the Housing Authority and Regional Juvenile Detention Center business-type activities in the amount of \$620,838 and \$55,764, respectively. The Solid Waste fund and Seybold Village Handicapped Project fund incurred losses of \$150,147 and \$27,388 respectively before operating transfers out. Overall the Business-type activities experienced an \$334,383 operating loss (program revenues less expenses) before non-operating revenues of \$833,450.



Business-type activities, revenue increased from \$6.4 million in FY03 to \$6.9 in FY04, an 8.2% increase. A key element in the growth of business-type activities revenues is as follows:

- Revenue Program charges for services increased from \$5.3 million in FY03 to \$5.9 million in FY04, a 11.3% increase. The increase in revenues is primarily attributed to the increase in administrative and service fees due to expanding services in both the Housing Authority and Regional Juvenile Detention Center.



Business-type activities expenses increased from \$6.2 million to \$6.4 in FY04, a 3.4% increase. Key elements in the growth of business-type activities expenses are as follows:

- Expenses in the Solid Waste fund increased slightly from \$3.2 million to \$3.3 million in FY04, a 2.0% increase. The increase is attributed to increased cost for salaries and goods and services. A transfer of \$200,000 was made to the General Fund to reimburse the General Fund for indirect cost incurred on behalf of the Solid Waste Fund.
- Expenses in the Juvenile Detention Center increased from \$1.19 million to \$1.27 million in FY04, a 7.1% increase. The increase in expenses is attributed in part to a 5.4% increase in salaries and wage expense in the amount of \$52,514.

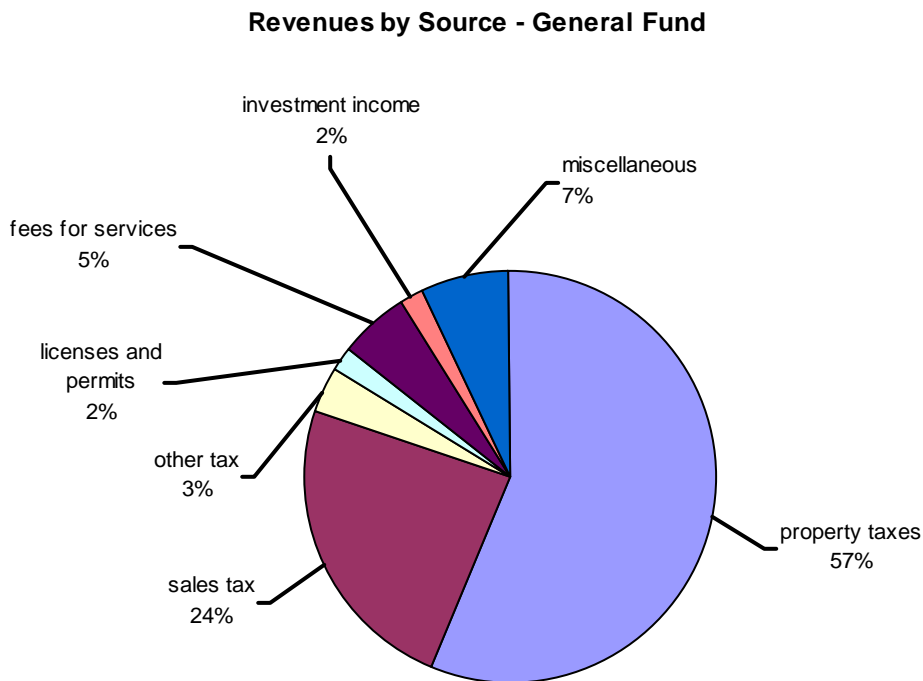
Financial Analysis of the County's Funds

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$168,171,636. Approximately 19.7% of this total, \$51,053,439 constitutes unreserved

fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to subsequent year's expenditures \$43,609,351 2) encumbrances to liquidate contracts and purchase orders of the prior period \$31,544,867, 3) to pay debt service \$39,867,900, and 4), for a variety of other restricted purposes \$2,096,079.

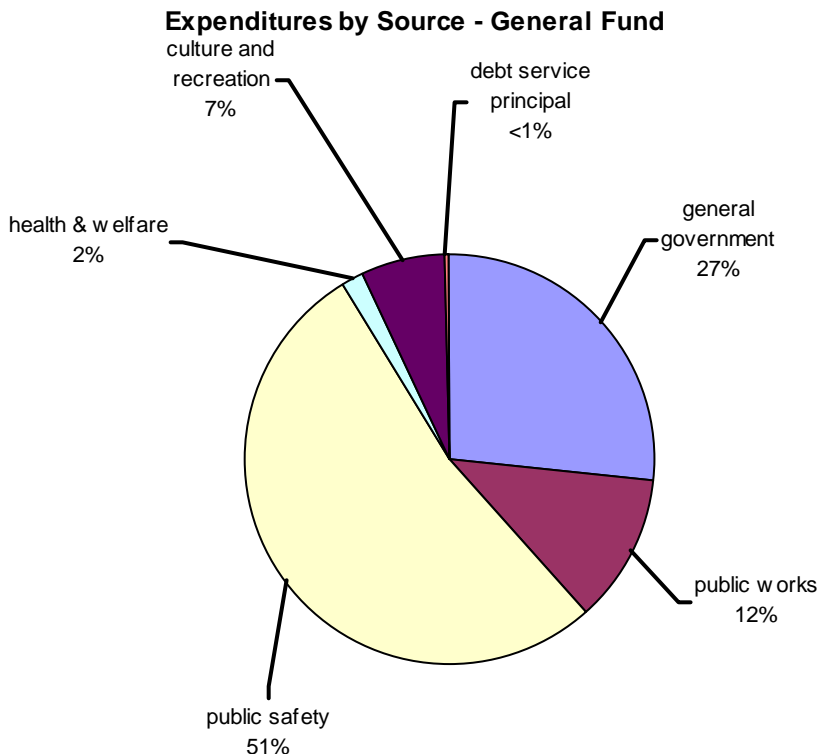
General Fund. The fund balance of the County's general fund increased by \$4,503,774 during the current fiscal year. Key factors in this growth are based on the increase in local taxes from the previous year combined with less than expected incurred expenditures during the year.



General Fund revenues increased by \$24.2 million from \$123.5 million to \$147.7 million, an increase of 19.5%. Key elements in the growth of General Fund revenues are as follows:

- Property taxes revenue increased by \$13.1 million or by 18.7% from \$69.8 million in FY03 to \$82.9 million in FY04. The increase in property tax revenue accounted for 54% of the increase in total revenues. The increase in property tax revenue is attributed to three different factors. In FY04 County taxable property valuation increased 3.7% to \$9.633 billion or by \$349 million from the previous year. In FY04 the County's operational residential mill levy rate increased from 5.918 to 7.007 and the operational non-residential mill levy rate increased from 10.520 to 11.600. Another contributing factor in the increase in property taxes was the increase in the current property tax collection rate from 94.82% to 95.40% in FY04.

- Miscellaneous revenue increased by \$7.2 million or by 226% from \$3.0 to \$10.2 million in FY04. The increase in miscellaneous revenue accounted for 29% of the increase in total revenues from the previous year. A majority of this increase is attributed to \$4.2 in revenue received from the City of Albuquerque for reimbursable food, canteen, and utilities costs incurred by the County on behalf of the jointly funded Metropolitan Detention Center. In prior years, these shared costs were incurred by the City and allocated back to the County. The other significant factors were a \$1.65 million property tax abatement settlement from Philips Semiconductors and \$410,644 from legal settlements.
- Gross receipt tax revenue increased by \$2.1 million or by 6.3% from \$33.2 million to \$35.3 million in FY04. The increase in gross receipt tax revenue accounted for 8.6% of the increase in total revenues.



In FY04, General Fund expenditures increased \$4.7 million from \$114.5 million to \$119.7 million, a 4.1% increase. A majority of the increase is attributed to \$4.2 in expenditures received from the City of Albuquerque for reimbursable food, canteen, and utilities costs incurred by the County on behalf of the jointly funded Metropolitan Detention Center. In prior years, these shared costs were incurred by the City and allocated back to the County. Also, in FY03, the County expended \$2.0 million in judgement settlements as compared to only \$9,500 in FY04. In FY04, a \$1.6 prior period adjustment was made to fund balance to correct an over statement of prior year expenditures.

Other key elements in the overall growth of General Fund expenditures are as follows:

- Capital outlay for the purchase of new Sheriff and fleet vehicles increased by \$862,035 from \$307,071 to \$1,169,106 in FY04.
- In FY04, County employees on average received an across the board salary increase and an increase in their healthcare benefits. A significant portion of the increase was in the General Fund in the amount of \$2.5 million.

Other changes in the General Fund expenditures were explained in the analysis of the government-wide Statement of Net Activities. Additional comparison of General, Special Revenue, and Debt Service Fund revenue and expenditures of prior years can be found in the statistical section of this report.

Proprietary funds. The County proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets (deficit) of the Solid Waste Fund, Bernalillo County Housing Authority, Seybold Village Handicapped Project, and the Regional Juvenile Detention Center at the end of the year were \$(16,655), \$2,386,312, \$1,533,995 and \$155,657 respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

Budgetary Highlights Original Budget – Final Budget Comparison.

General Fund. General fund original budgeted revenues increased \$6.3 million or by 4.6% from \$134.4 million to \$140.7 million (final). General fund original budgeted expenditures increased \$9.9 million or by 7.1% from \$137.7 million to \$147.6 million (final). Significant changes between the original budget and the final amended budget are summarized as follows:

- The original budget for Gross Receipts Tax revenue increased \$845,875 from \$32.8 million to \$33.6 million (final). The increase was based on a higher than expected collection rate that was a result of an improvement in the local area economy.
- The original budget for Fees for Services revenue was decreased \$392,714 from \$7.76 million to \$7.37 million (final). During the year, a budget classification was made to transfer \$621,000 in budget utility revenue to the miscellaneous revenue budget. There were minor budget increases in Clerk fees and Metro Court security services reimbursements that offset the decrease.
- The original budget for Miscellaneous revenue was increased \$5,316,000 from \$594,216 to \$5.9 million (final). In FY04 the County took over the management of the food contract for the Metropolitan Detention Center (MDC). The revenue budget was increased \$4.6 million to establish a budget for food costs incurred by the County on behalf of MDC that are reimbursed by the City of Albuquerque. Another increase of \$621,000 was made to establish a budget for utility costs incurred by the County for MDC that are reimbursed by the City of Albuquerque.
- A budget increase of \$768,071 to "Transfer In" was made to close out several unexpended funds.

- The Cash Appropriations budget was increased \$4.6 million to account for the increase in budgeted expenditures in excess of budget revenues.
- The Information Technology (IT) Department original expenditure budget decreased \$727,154 from \$6.9 million to \$6.2 million. A budget adjustment of \$644,799 was made to establish a reimbursement budget for IT cost associated with the management of the MDC computer and phone line systems that are reimbursed by the City of Albuquerque.
- The Finance and Administration original expenditure budget decreased \$552,939 from \$6.7 million to \$6.2 million to reflect the reduction of multi-line property insurance premiums.
- The General County original expenditure budget increased \$4.7 million from \$11.6 million to \$16.4 million (final). The budget adjustment was needed to establish a budget to reimburse the General Fund reserves for Project Revenue Bond and Gross Receipt Tax Bond expenditures prior to the receipt of the proceeds from the sale of Project Revenue Bonds and GRT Bonds in the amount of \$2,000,000 and \$2,500,000, respectively.
- The County Clerk original expenditure budget increased \$661,019 from \$2.7 million to \$3.4 million (final). A budget adjustment of \$235,127 was made to salaries to increase funding for temporary part time help for the general election and another \$178,500 for the cost of ballots due to the increasing demand for early voting ballots.
- The Sheriff's Office original expenditure budget increased \$885,612 from \$21.7 million to \$22.6 million (final) to account for the increase in salary cost.
- The Metropolitan Detention Center original expenditure budget increased \$5.1 from \$33.2 million to \$38.3 million. Most of the increase was to establish a budget in the amount of \$4.6 million for food cost incurred by the County on behalf of MDC that are reimbursed by the City of Albuquerque.
- The budget for "Transfers out" increased \$1.8 million from \$25.6 million to \$27.4 million. An additional budget transfer of \$1,054,000 was made to Water/Wastewater Fund for water and sewer projects. An additional budget transfer of \$398,904 was made to the TRAN debt service fund to pay for TRAN interest expense. And a final budget transfer of \$350,000 was made to reimburse the Grant Fund for unification election cost.

Other Major Funds. The County does not adopt annual budgets for the Grant Fund and 1999 Revenue Bond Fund.

Budgetary Highlights – Budget to Actual

General Fund. General Fund revenues exceeded budgetary estimates by \$6,134,305 or by 4.3%. General Fund expenditures were less than budgetary estimates by \$17,295,111, or by 11.7% thus eliminating the need to draw upon existing fund balance. However, during the year the County incurred a deficiency of revenues over expenditures and other financing sources in the amount of (\$7,582,696). A very large portion of this deficiency was attributed to over \$13 million in prior year

accounts payables that were paid in FY04 to the City of Albuquerque for the operations of the Metropolitan Detention Center. Individual significant differences between the General Fund final budget and actual amounts are summarized as follows:

- Property tax revenue had a positive variance of \$1,377,741. The budget projections had projected a 95% collection rate of current property taxes within the County as of June 30, 2004. The actual collection rate was 95.40%. The significant reason for the positive variance was that delinquent taxes and interest on delinquent taxes exceeded projections by \$818,696 and \$363,160, respectively.
- Gross Receipts Tax revenue had a positive variance of \$1,485,469 that was the result of an improvement in the local economy in FY04.
- Investment income revenue had a negative variance of (\$1,675,069). Income revenue projections included expectations that the rate of return on investments would have increased from the previous year with an improved local and national economy; however, interest rates did not increase significantly. During the year, the County had a significant portion of its funds invested in a high yielding investment that matured during the year. The County was unable to obtain a similar rate of return when these funds were re-invested.
- Miscellaneous income had a positive variance of \$4,115,487. This positive variance was attributed to several different factors. In FY04, the County received a \$1.65 million property tax abatement settlement from Philips Semiconductors that had not been budgeted. During the year, the County also received \$1,371,228 in refunds and reimbursement. This amount included a \$500,000 Jail settlement and legal reimbursement of \$410,644.
- Finance and Administration expenditures had a positive variance of \$1,014,729. This variance is primarily attributed to lower insurance premiums and deductibles of \$194,342 and less than expected expenditures from Law Enforcement Officer liability claims in the amount of \$651,169, and lower than expected fleet replacement cost of \$93,590.
- General County expenditures had a positive variance of \$10,666,410. A large portion of the variance, \$4.5 million, is attributed to the establishment of budget to reimburse the General Fund reserves for any expenditures prior to the receipt of the proceeds from the sale of Project Revenue Bonds and GRT Bonds. During the year no expenditures were incurred for these budgeted items. Another large part of the variance was attributed to \$2,424,233 in contingency salary and \$662,817 in salary cap expenditures that did not occur. There was also a positive variance of \$291,543 for space contingency. The remaining variance balance pertained to various other expenditure categories including contractual services, capital outlay, and repair and maintenance.
- Bernalillo County Detention Center had a positive variance of \$1,929,110. This variance is attributed to less than expected cost for food and commissary supplies in the amount of \$1,200,066 and less than expected operating cost of \$786,398.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business type activities as of June 30, 2004 amounts to \$481,758,527 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, and infrastructure. Major capital asset events during the current fiscal year included the following:

- Work on the Valley Utilities Project started in FY02 is progressing and is expected to take close to ten years to complete at a cost of nearly \$110 million. The project will provide municipal utilities to properties in the developed areas of the South and North Valleys of the County. During the fiscal year, several significant sewer projects were completed: Pajarito Sanitary Sewer, Areas 6 and 7, Area "D" Sanitary Sewer, Hunter Road/Elsa Road Sanitary Sewer, Love Road Sewer Extension, and Coors 8,9, and 10 Sanitary Sewer Areas.
- Work has been completed on Phase 1 of Isleta Boulevard Reconstruction Project. The road, once part of El Camino Real, remains an important social artery and economic lifeline to the community. The design for the Isleta Boulevard Reconstruction Project Phase 2 has continued with right-of-way acquisition started.
- Through the use of funds from County bonds and the New Mexico Department of Transportation, the Public Works Department was able to complete the construction of a number of local road improvement projects throughout the County. Paving improvements funded from grants were made to 13 roads throughout the County and paving improvements funded from GO Bonds were made to 15 roads throughout the year. Several significant projects were constructed or construction was started including the following; Gatewood Road/Drainage, Five Points Road/Drainage, Prince Street Road/Utilities, and Adobe Acres Roads. Golf Course Road project design was completed and the appraisal and acquisition of 43 right-of-way parcels was finalized. Over 26 miles of County roads throughout the unincorporated areas were paved.
- Completed plans and specifications for Tramway and Isleta Fiber Optic Interconnect Project to improve traffic signal coordination. This project was undertaken as an in-house design endeavor. With money saved from not incurring fees normally charged with an outsourced project, additional resources will be applied to design and construct Phase II of this project to upgrade existing telephone line communication to the Traffic Operations Center at 2400 Broadway.
- Continued coordination with AMAFCA and the Corps of Engineers (COE) on the Southwest Valley Flood Reduction project. The project will provide a major outfall to the Rio Grande by upgrading MRGCD facilities consisting of Isleta, Armijo, and Los Padillas drainways and constructing new facilities to reach the Rio Grande. This outfall system will be the backbone for a regional drainage system serving the majority of the central South Valley area.

County of Bernalillo's Capital Assets
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$120,666,798	\$124,501,275	\$ 426,500	\$ 432,002	\$121,093,298	\$ 124,933,277
Buildings	189,323,702	194,534,189	2,020,383	2,081,186	191,344,085	196,615,375
Machinery and equipment	12,311,761	14,202,911	32,322	39,423	12,344,083	14,242,334
Infrastructure	141,412,719	135,644,980	-	-	141,412,719	135,644,980
Leasehold improvements	2,458,173	2,570,333	-	-	2,458,173	2,570,333
Construction in progress	11,266,348	14,615,312	415,309	-	11,681,657	14,615,312
Art	1,424,512	1,420,712	-	-	1,424,512	1,420,712
Total	\$478,864,013	\$487,489,712	\$2,894,514	\$ 2,552,611	\$481,758,527	\$ 490,042,323

Additional information on the County's capital assets can be found in note IV-C. on pages 50-51 of this report.

Debt administration. The Bernalillo County Budget and Finance Division has analyzed the existing debt position of the County and has assessed the impact of future financing requirements on the County's ability to service additional debt. Review and analysis of the County's debt position is performed to provide a capital financing plan for infrastructure and other improvements. Long-term financing projections are linked with economic, demographic and financial resources expected to be available to repay the debt. Decisions regarding the use of debt are based upon a number of factors including, but not limited to, the long-term needs of the County and the amount of resources available to repay the debt. The debt policy is not expected to anticipate every future contingency in the County's capital program or future operational needs. Sufficient flexibility is required to enable County management to respond to unforeseen circumstances or new opportunities, when appropriate.

The County will maintain direct tax supported debt at a manageable level that takes into account economic factors including population, assessed valuation, and other current and future tax-supported essential needs. The decision to issue bonds, by either competitive or negotiated sale, is based upon which alternative will provide the County with lower costs. The Board of County Commissioners decides on an issue-by-issue basis which method of sale would be most appropriate. The County encourages the use of competitive sales for all issues unless circumstances dictate otherwise. Negotiated sales are considered if the sale is a complex financing structure. If a negotiated sale is anticipated, the Budget and Finance Division and County Bond Counsel establish a list of prequalified underwriters.

General Obligation Bonds. At the end of the current fiscal year, the County had total general obligation debt outstanding of \$83,915,000. The county has outstanding general obligation bonds for capital facilities including road improvements, storm drain improvements, library books, public safety improvements and park facility improvements. General obligation bonds are backed by the full faith and credit of the County government and are supported by ad valorem taxes. The tax rate depends upon debt service schedules and property valuation and is set by the New Mexico Department of Finance and Administration. In fiscal year 2004 this tax is approximately \$.83 per \$1,000 of assessed taxable value in ad valorem taxes to support general obligation bonds, which constitute direct and general obligations of the County. These bonds have retirement dates ranging from August 1, 2010

through December 15, 2023. The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the County's debt position. The State's Constitution provides for a legal debt limit of four percent (4.0%) of taxable valuation. The ratio for the County is less than one percent (0.9%) of the \$9.633 billion taxable value of property within Bernalillo County, as of June 30, 2004. The County may currently issue up to an additional \$301.4 million of general obligation bonds. The net general bonded debt per capita is \$138.94. The lowest per capita amount in the last ten fiscal years was \$86.04 in fiscal year ended June 30, 1996. The County's ratings on uninsured general obligation bonds as of June 30, 2004 were:

- Moody's Investors Service, Inc. Aa1
- Standard & Poor's Rating Service AA+

At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$191,875,000. The county has six outstanding revenue bonds: the 1996B series, the 1997 series, the 1998 refunding series, the 1999 series, the 2002 series, and the 2004 series. These bonds are payable from net pledged gross receipt tax revenues. Although the bonds are general obligations of the County, the County intends to pay the bonds solely from the net pledged revenues. These bonds have retirement dates ranging from November 15, 2011 through April 1, 2027.

Revenue Bonds Supported by the Clerk's Office Filing Fees. At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$350,000 that was supported by net pledged filing fee revenues. Although this bond is a general obligation of the County, the County intends to pay the bond solely from the net pledged filing fee revenues. This bond has a retirement date of 2005.

General Obligation and Revenue Bonds Outstanding

	Governmental Activities		Business-type Activities	
	2004	2003	2004	2003
General obligation bonds	\$ 83,915,000	\$ 77,155,000	-	-
Revenue bonds	192,225,000	184,910,378	-	-
Total	<u>\$276,140,000</u>	<u>\$262,065,378</u>	-	-

The County's total bond debt increased by \$14,074,622 during the current fiscal year. Additional information on the County's long-term debt can be found in note IV.F on pages 54-56 of this report and in the statistical section of this report.

Economic Factors and Next Year's Budgets and Rates

The County's Board of Commissioners and Manager considered many factors when setting the fiscal year 2005 budget. According to forecasts by the University of New Mexico Bureau of Business and Economic Research (BBER), the outlook for the Albuquerque MSA economy is good. Strength during the forecast period will come from construction, educational and health services, a resurgent manufacturing sector, and consistent moderate gains from several other sectors, including government,

and professional and scientific and technical services. Personal income growth will reach 6.0 percent in 2004 and 2005, and decline to just over 5.5% annually from 2006 through 2009.

Following virtually no employment gains from 2001 to 2003, non-farm employment growth is expected to reach 1.7% in 2004 and 2.5% in 2005, and then level off near 2% annually through 2009. The manufacturing sector will finally enjoy positive employment growth by the end of 2004. For the entire year, manufacturing employment will decline 1.2 %, but will be followed by gains of 3.7% in 2005 and 2.2% in 2006. The closing of Philips Semiconductors and Honeywell Automation and Controls Solutions Division will contribute to the decline in manufacturing job growth this year. On the other hand, new manufacturing jobs are currently being added in 2004, and will be added in 2005. Manufacturing firms that are adding jobs include Ocular Sciences, Noteworthy Industries, Honeywell Defense Avionics, Cabot Superior MicroPowders, Team Specialty Products, MesoFuel, Aerospace Composite Structures, MCT Industries, Stainless Motors, Intellite, Sennheiser New Mexico LLC, Phoenix Cabinets and Countertops, Mechanical Solutions, and Heel Biotherapeutics. Newcomer TempurPedic, a manufacturer of mattresses and related products that the County was instrumental in bringing to New Mexico, is building a factory on the West Side of Albuquerque. TempurPedic plans to employ 300 people in 2005. Eclipse Aviation is adding 300 jobs in the near term, and will add hundreds more in 2007 when it reaches full production mode.

The construction sector will enjoy robust employment growth throughout the forecast period, with a 4.9% increase slated for 2004, and between 3.0% and 4.0% per year beginning in 2005. Construction employment growth will receive a large boost from a large share of the \$1.6 billion infusion state funds to improve New Mexico roads and highways with one-half slated to be spent in the Albuquerque MSA. Other large projects include the Microsystems Engineering and Sciences Application complex, the Center for Integrative Nanotechnology, the International Balloon Museum, and the Uptown “lifestyle center” at Winrock Center.

The government sector, about twenty percent of Albuquerque MSA employment, will enjoy moderate growth close to 2.0% each year through 2009, and will thus provide an element of stability. Local government employment growth will be close to 2.5% annually, while state government employment will exhibit consistent growth of a little less than 2.0% per year. At the federal level, employment has been stable for years, but in the latter part of 2004, there will be an increase of 400 jobs when the U.S. Forest Service opens a financial services center.

Job growth will remain strong in the educational and health services/social assistance sector, but growth will subside during the forecast period. After reaching 4.9% in 2004, growth will ease to 4.4% in 2005 and thereafter decline by about .5% annually, until it reaches 2.6% in 2009. There is a significant expansion by Presbyterian Healthcare Services underway, including the remodeling of one health care facility and the construction of another. The trade sectors face a future of mild growth. Wholesale trade employment will average about .5% gains annually, while retail trade employment remains in the 1.0% to 2.0% range each year. Additional strength will come from the professional, scientific and technical services, each of which will consistently enjoy employment growth in the 2.0% to 2.5% interval annually. Employment in the leisure and hospitality industry showed a 2.0% gain in 2004 and is expected increase to 2.2% in 2005 and 1.0% annually through 2009.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Finance and Budget Division, One Civic Plaza, NW – 10th Floor, Albuquerque, New Mexico 87102.